

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE ADJUSTMENT OF RATES OF)	
HENDERSON COUNTY WATER)	CASE NO. 8087
DISTRICT)	

O R D E R

On December 3, 1980, Henderson County Water District (Applicant) filed an application with this Commission giving notice of an adjustment of rates to become effective January 1, 1981. The proposed rates would produce additional revenue of \$68,917 annually, an increase of 16.58% based on the test year revenue. By Commission Order, the effective date of the proposed tariffs was suspended for five months pursuant to the provisions of KRS 278.190.

On December 8, 1980, the Division of Consumer Intervention in the Department of Law filed a motion to intervene in this proceeding which was sustained. This was the only party of interest formally intervening herein.

The case was set for hearing at the Commission's offices in Frankfort, Kentucky, on March 18, 1981. All parties were notified and the hearing was conducted as scheduled. At the conclusion of the hearing and following response to all requests for additional information, the matter was submitted to the Commission for final determination.

COMMENTARY

Henderson County Water District is a nonprofit water distribution system organized and existing under the laws of the Commonwealth of Kentucky. The Applicant presently serves approximately 2,851 consumers in Henderson and Webster Counties, Kentucky.

TEST PERIOD

The Applicant proposed and the Commission has adopted the twelve-month period ending August 31, 1980, as the test period for determining the reasonableness of the proposed rates and charges. In utilizing the historic test period the Commission has given full consideration to known and measurable charges where appropriate.

REVENUES AND EXPENSES

Applicant proposed several adjustments to revenues and expenses as reflected on its income statement. The adjustments were proposed to normalize increases in purchased water costs, purchased power, salaries and wages, director fees, employee benefits, depreciation and interest expense. The Commission is of the opinion that the adjustments are generally proper and accepted for rate-making purposes with the following modifications:

1. Applicant's adjustment to salaries and wages included a 5% cost of living increase which had not been approved by the Board but was anticipated to go into effect based on the previous year's experience. The Commission is of the opinion that this increase has no substantive support and, therefore, should not be allowed for

rate-making purposes. The Commission will allow \$7,344 of the proposed adjustment which includes a ten percent increase that was approved by the Board on September 1, 1980.

2. Applicant proposed an adjustment of \$1,659 to reflect the additional costs of employee benefits. Since a portion of this adjustment is based on salaries and wages, the Commission has reduced the adjustment by \$320 to reflect only the amount related to the salary increase allowed in this case.

3. The Commission has reduced Applicant's interest expense by \$1,611 for rate-making purposes in that the debt attributable to this expense is no longer outstanding.

4. The Commission has reduced Applicant's depreciation expense by \$6,396 for rate-making purposes. Applicant's balance sheet reflected contributions in aid of construction of \$329,952 or approximately 13.58% of total plant. It is the intent of the Commission that Applicant, through its water service rates, will generate revenues sufficient to recover all costs incurred in providing service to its customers. However, it is not the Commission's intent that Applicant charge its customers for costs it has not incurred, as would be the case if Applicant were allowed to charge its customers for depreciation on contributed property. The Commission has allowed the Applicant's normalization adjustment of \$1,062 which results in an adjusted depreciation expense of \$40,704.

Based on the adjustments, Applicant's test period operations would appear as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenue	\$ 425,442	\$ -0-	\$ 425,442
Operating Expense	267,737	9,269	277,006
Operating Income	\$ 157,705	\$(9,269)	\$ 148,436
Other Income	28,595	-0-	28,595
Other Deductions	117,734	(3,036)	114,698
Net Income	<u>\$ 68,566</u>	<u>\$(6,233)</u>	<u>\$ 62,333</u>

REVENUE REQUIREMENTS

Applicant's debt service coverage for the test year was 1.67. After taking into consideration the pro forma adjustments, Applicant's debt service coverage would be 1.56. The Commission is of the opinion that the adjusted debt service coverage is reasonable in that the bond ordinance from First National Bank requires Applicant to maintain a coverage of 1.3. The Commission feels that the adjusted debt service coverage is sufficient to allow Henderson County Water District to pay operating expenses, meet its minimum debt service requirements, and maintain an adequate surplus.

SUMMARY

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and so finds that the rates proposed by Henderson County Water District would produce revenues in excess of those found to be reasonable herein and, therefore, must be denied upon application of KRS 278.030.

IT IS THEREFORE ORDERED that the rates proposed by Henderson County Water District are hereby denied.

IT IS FURTHER ORDERED that the rates authorized in Case No. 5423 are the fair, just and reasonable rates for Applicant and shall

remain in effect.

Done at Frankfort, Kentucky, this 28th day of May, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Vohs
Chairman

Katharine Randall
Vice Chairman

Don Hargis
Commissioner

ATTEST:

Secretary